Group accounting policies

Year ended 31 July 2006

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, including interpretations issued by the International Accounting Standards Board ("IASB") and its committees and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The disclosures required by IFRS 1, "First-Time Adoption of International Financial Reporting Standards" concerning the transition from UK GAAP to IFRS are given in note 45. The date of transition to IFRS is 1 August 2004.

A summary of the principal accounting policies applied by the Group in the preparation of the consolidated financial statements is set out below.

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale investments and financial assets and liabilities held for trading.

First-time adoption of International Financial Reporting Standards

IFRS 1, "First-time Adoption of International Financial Reporting Standards" sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its IFRS accounting policies as at 31 July 2006 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 August 2004.

Certain optional exemptions to this general principle are available under IFRS 1 and the significant first-time adoption choices made by the Group are as follows:

- The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before 1 August 2004. As a result, in the IFRS opening balance sheet, goodwill arising from past business combinations of £666 million remains as stated under UK GAAP at that date.
- The Group has elected to recognise all cumulative actuarial gains and losses in relation to post employment defined benefit schemes at the date of transition. In addition, the Group has elected to recognise actuarial gains and losses in full in the period in which they occur in a statement of recognised income and expense.
- The Group has elected to apply IFRS 2, "Share Based Payment" only to equity-settled awards that had not vested as at 1 August 2004 and were granted on or after 7 November 2002 and cash-settled awards that had not vested as at 1 August 2004.
- The Group has elected to reset the foreign currency translation reserve to zero at 1 August 2004. Going forward, IFRS requires amounts taken to reserves on the retranslation of foreign subsidiaries to be recorded in a separate foreign currency translation reserve and be included in the future calculation of profit or loss on sale of the subsidiary.
- The Group has elected to implement IAS 39, "Financial Instruments: Recognition and Measurement" and IAS 32, "Financial Instruments: Disclosure and Presentation" at its date of transition, 1 August 2004 and apply hedge accounting where the requirements of IAS 39 are met.

Consolidation

The consolidated financial information includes the results of the parent Company and its subsidiary undertakings drawn up to 31 July 2006.

The trading results of businesses acquired, sold or discontinued during the year are included in profit on ordinary activities from the date of effective acquisition or up to the date of sale or discontinuance.

Intra-group transactions and balances and any unrealised gains and losses arising from intra-group transactions are eliminated on consolidation.

Foreign currencies

Items included in the financial statements of each of the Group's subsidiary undertakings are measured using the currency of the primary economic environment in which the subsidiary undertaking operates (the "functional currency"). The consolidated financial statements are presented in sterling, which is the presentational currency of the Group and the functional currency of the parent Company.

The trading results of overseas subsidiary undertakings are translated into sterling using average rates of exchange ruling during the relevant financial period.

The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the period end. Exchange differences arising between the translation into sterling of the net assets of these subsidiary undertakings at rates ruling at the beginning and end of the year are recognised in the currency translation reserve as are exchange differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against foreign currency net assets.

Changes in the fair value and the final settlement value of derivative financial instruments, entered into to hedge foreign currency net assets and that satisfy the hedging conditions of IAS 39, are recognised in the currency translation reserve (see the separate accounting policy on derivative financial instruments).

In the event that an overseas subsidiary undertaking is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the subsidiary undertaking concerned. As permitted by IFRS 1, the Group has elected to deem the cumulative currency translation differences of the Group to be £nil as at 1 August 2004. As a result the gain or loss on disposal of an overseas subsidiary undertaking does not include currency translation differences arising before 1 August 2004.

Foreign currency transactions entered into during the year are translated into sterling at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are taken to the income statement with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against foreign currency net assets as detailed above.

Group accounting policies

Year ended 31 July 2006

Revenue

Revenue is the amount receivable for the provision of goods and services falling within the Group's ordinary activities, excluding intra-group sales, estimated and actual sales returns, trade and early settlement discounts, value added tax and similar sales taxes.

Revenue from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer. The risks and rewards of ownership of goods are deemed to have been transferred when the goods are shipped to, or are picked up by, the customer.

Revenue from services, other than those that arise from construction service contracts (see below), are recognised when the service provided to the customer has been completed.

Revenue in respect of construction service contracts, where the Group is providing framing lumber installation services to residential property companies, is recognised using the percentage of completion method, with the percentage complete being determined by comparing the percentage of costs incurred to date with the estimated total costs of the contract. Losses on these contracts, if any, are recognised in the period when such losses become probable and can be reasonably estimated.

Revenue from the provision of goods and all services is only recognised when the amounts to be recognised are fixed or determinable and collectability is reasonably assured.

Vendor rebates

The Group enters into arrangements with certain vendors providing for inventory purchase rebates. These purchase rebates are accrued as earned and are recorded initially as a reduction in inventory with a subsequent reduction in cost of sales when the related product is sold.

Business combinations

The Group has applied the purchase method in its accounting for the acquisition of subsidiaries.

As permitted by IFRS 1, the Group has elected not to apply IFRS 3 "Business Combinations" to acquisitions of subsidiaries that were recognised before 1 August 2004 and as a result the carrying amount of goodwill recognised as an asset under UK GAAP has been brought forward unadjusted as the cost of goodwill recognised under IFRS as at 1 August 2004. IFRS 3 has been applied with effect from 1 August 2004 and goodwill amortisation ceased from that date.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is included in intangible assets.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the lowest level within the Group at which the associated goodwill is monitored for management purposes and are not larger than the primary or secondary reporting segments determined in accordance with IAS 14 "Segmental Reporting".

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets, primarily brands, trade names and customer relationships, acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the reducing balance method for customer relationships and the straight-line method for other intangible assets. The cost of the intangible assets is amortised over their estimated useful lives, which can range from less than a year to 25 years, depending on the nature of the intangible asset.

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training and data conversion are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the income statement over its estimated useful life (3-5 years).

Property, plant and equipment ("PPE")

PPE is carried at cost less accumulated depreciation and accumulated impairment losses, except for land and assets in the course of construction, which are not depreciated and are carried at cost less accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. In addition, subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Freehold buildings and long leaseholds	35–50 years
Short leaseholds	over the period of the lease
Plant and machinery	7–10 years
Fixtures and fittings	5–7 years
Computers	3–5 years
Motor vehicles	4 years

The residual values and useful lives of PPE are reviewed and adjusted if appropriate at each balance sheet date.

Borrowing costs attributable to assets under construction are charged to the income statement in the period in which they are incurred.

Leased assets

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group, are capitalised in the balance sheet and depreciated over the shorter of the lease term or their useful lives. The asset is recorded at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. The capital elements of future obligations under finance leases are included in liabilities in the balance sheet and analysed between current and non-current amounts.The interest elements of future obligations under finance leases are charged to the income statement over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding in accordance with the effective interest rate method.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the income statement on a straight line basis over the periods of the leases.

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. For this to be the case, the asset must be available for immediate sale in its present condition, management must be committed to and have initiated a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are not depreciated and are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment of assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method or the average cost method as appropriate to the nature of the transactions in those items of inventory. The cost of goods purchased for resale includes import and custom duties, transport and handling costs, freight and packing costs and other attributable costs less trade discounts, rebates and other subsidies. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Taxation

Current tax represents the expected tax payable (or recoverable) on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and taking into account any adjustments arising from prior years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Group accounting policies

Year ended 31 July 2006

Derivative financial instruments

Derivative financial instruments, in particular, interest rate swaps and currency swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities. There is no trading activity in derivative financial instruments.

At the inception of a hedging transaction entailing the use of derivative financial instruments, the Group documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in IAS 39, changes in their fair values are recognised in the income statement.

When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges. Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument. Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity are either recycled to the income statement or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount.

Pensions and other post retirement benefits

Contributions to defined contribution pension plans and other post retirement benefits are charged to the income statement as incurred.

For defined benefit pension plans and other retirement benefits, the cost is calculated annually using the projected unit credit method and is recognised over the average expected remaining service lives of participating employees, in accordance with the recommendations of independent qualified actuaries. The current service cost of defined benefit plans is recorded within operating profit. The total expected return from pension scheme assets less the total interest on pension scheme liabilities is recorded within finance revenue if a gain and finance costs if an expense. Past service costs resulting from enhanced benefits are recorded within operating profit and recognised on a straight-line basis over the vesting period, or immediately if the benefits have vested. Actuarial gains and losses, which represent differences between the expected and actual returns on the plan assets and the effect of changes in actuarial assumptions, are recognised in full in the statement of recognised income and expense in the period in which they occur. The defined benefit liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation at the balance sheet date, less any past service costs not yet recognised, less the fair value of the plan assets, if any, at the balance sheet date. Where a plan is in surplus, the asset recognised is limited to the amount of any unrecognised past service costs and the present value of any amount which the Group expects to recover by way of refunds or a reduction in future contributions.

Trade receivables

Trade receivables are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no right of offset and practice of net settlement with cash balances.

Share capital

The Company only has one class of shares, ordinary shares, which are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Borrowings

Borrowings are recognised initially at cost being the fair value of the consideration received net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss
This category comprises financial assets held for trading which have been acquired principally for the purpose of selling in the short-term. Derivatives also fall within this category unless they are designated as hedges and the hedge is effective for accounting purposes. Assets in this category are classified as current.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets unless the investment is due to mature within 12 months of the balance sheet date.

(d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Such provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

Provisions for insurance represent an estimate, based on historical experience, of the ultimate cost of settling outstanding claims and claims incurred but not reported at the balance sheet.

Share-based payments

Share-based incentives are provided to employees under the Group's executive share option, long-term incentive and share purchase schemes. The Group recognises a compensation cost in respect of these schemes that is based on the fair value of the awards, measured using Black-Scholes, Binomial and Monte Carlo valuation methodologies. For equity-settled schemes, the fair value is determined at the date of grant and is not subsequently re-measured unless the conditions on which the award was granted are modified. For cash-settled schemes, the fair value is determined at the date of grant and is re-measured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or non-market performance conditions.

As permitted by IFRS 1, the Group has applied IFRS 2 "Share-based Payment" retrospectively only to equity-settled awards that had not vested as at 1 August 2004 and were granted on or after 7 November 2002 and cash-settled awards that had not vested as at 1 August 2004.

Dividends payable

Dividends on ordinary shares are recognised in the Group's financial statements in the period in which the dividends are approved by the shareholders of the Company (generally in the case of the final dividend) or paid (in the case of interim dividends).